

Montana Teachers' Retirement System



Employers' Retirement Termination Pay Training

Termination Pay Definition

Termination pay includes any form of:

- ☐ Vacation Pay
- ☐ Sick Leave
- ☐ Severance pay
- ☐ An amount provided under an early termination incentive plan
- ☐ Other payments contingent on a TRS member terminating their employment, and are being paid at the time of termination.



A TRS member is permitted to pay additional employee contributions to the TRS in order to include termination pay in the calculation of their monthly benefit to fund an increased benefit.

Retirement Termination Pay Form

A TRS member, who terminates their employment for the purpose of retiring and is eligible for a payout of an amount that meets the definition of termination pay must fill out a 'Retirement Termination Pay' form.

- The TRS will include a 'Retirement Termination Pay' form, in each retiring member's retirement application materials.
- The TRS member is instructed to complete Section I of the form and forward the form to you, as the employer.
- The 'Retirement Termination Pay' form must be retained in your office until the TRS member has been fully terminated, all wages have been paid, and the termination pay amount has been determined.



Retirement Termination Pay Form, Cont.

The "Retirement Termination Pay" form is to be retained in your office until the employee has been terminated. Please return the form to the TRS at least one week prior to submitting your monthly contribution report which contains the termination pay contributions due. This will allow our office processing time necessary to minimize interruptions for you in validating and submitting your monthly contribution report.

The employee and employer contributions due on termination pay must be remitted by the 15th of the month following termination.



Retirement Termination Pay Form

Section I – Member Election

The following is an example of Section I, properly completed.

Jane Smith 123-45-6789
(Member's Printed Name) (Social Security Number)

123 Anywhere Street Helena MT 59602
(Home Mailing Address – Including City, State & Zip+4 Code (If unknown, use 5-digit Zip Code))

406 444-3234 01-01-1950
(Area Code and Telephone Number) (Date of Birth)

I hereby elect termination pay option: ☒ Option 1 ☐ Option 2 ☐ Option 3

- X I have signed the "Termination Pay – Irrevocable Election Form," at least 90 days prior to my termination of employment, allowing the contributions due on termination pay to be remitted as tax-deferred.

I have not signed the "Termination Pay – Irrevocable Election Form."

Jane Smith 02/23/09
(Member's Signature) (Date)

Employer Certification

Section II – Employer Certification

As the employer you must properly complete Section II of the 'Retirement Termination Pay' form once the member has been fully terminated. This section confirms the employee's date of termination, the termination pay amount, and fiscal year wages.



Retirement Termination Pay Form

Section II – Certification

The following is an example of Section II of the 'Retirement Termination Pay' form, properly completed.

06/30/2009 \$ 5,000.00
(Employee's Termination Date) (Employee's Termination Pay Amount)

Will employee contributions due on termination pay be remitted as tax-deferred? ☒ YES ☐ NO

Please verify the following: **(Do not include Termination Pay Amount)**

Base Contract Amount \$45,000.00 Other Compensation \$2,000.00 Explanation: Coaching

I certify that the above named individual has terminated their employment and that if they have signed a Termination Pay – Irrevocable Election (TPIEF), unless otherwise required by law, the total termination pay amount payable to the individual is reported below; that all information reported is complete and correct; and that employee contributions will be withheld pursuant to IRC §414(h)(2) and Montana Code Annotated, §19-20-716. I also certify that the termination pay amount reported below does **not** include deferred compensation as defined under IRC, 457(f).

Montana Schools 406 444-3134
(Employer's Printed Name) (Area Code & Telephone Number)

Janet Cooper - School Clerk 123456
(Certifying Officer's Printed Name & Title) (TRS Six-Digit Employer Number)

Janet Cooper 02-24-09
(Certifying Officer's Signature) (Date)

Retirement Termination Pay Form

Section III – Calculation of Contributions Due

Section III is to be completed by you as the employer if the employee elected Termination Pay Option 1 or Option 2. This information will be used in calculating the amount the employee and you, the employer, must contribute to the TRS on the termination pay.

For your convenience, the TRS has a termination pay calculator that can be utilized in calculating the employee and employer contributions due on termination pay. The calculator can be accessed <http://www.trs.mt.gov/employers.htm>. Click on 'TRS On-Line' and log on using your User I.D. and Password. If your agency does not have a User I.D. and Password you will need to download, complete and send in (via mail or fax 444-2641) an 'Internet Sign-Up Form'. The TRS Information Technology staff will assign a User I.D. and Password for accessing TRS On-Line. The sign-up form is available at <http://www.trs.mt.gov/trsonlinex/InternetSignUpForm2004-08.pdf>.

Termination Pay Calculator

Termination Pay Calculator

Member	<input type="text" value="999-99-9999"/>	Jane Smith	<input type="button" value="Search"/>
Employer	<input type="text" value="123456"/>	A Montana School	
Date of Birth	<input type="text" value="06/05/1950"/>		
Member Age	<input type="text" value="60"/>		
Retirement Date	<input type="text" value="07/01/2009"/>	First day of month after termination date	
Years of Service	<input type="text" value="30.00"/>		
Termination Pay	<input type="text" value="5,000.00"/>		

Contribution:	Contribution Rate	Employee Cost	Contribution Rate	Employer Cost
Option 1	<input type="text" value="3.36%"/>	<input type="text" value="\$5,040.00"/>	<input type="text" value="3.51%"/>	<input type="text" value="\$5,265.00"/>

Please contact TRS to confirm service credit for the calculation of termination pay contributions due.



Retirement Termination Pay Form

Section III – Calculation Of Contributions Due

Option 1

The following is an example of Section III, properly completed, for a TRS member retiring at the age of 60.

(A) EMPLOYEE CONTRIBUTION

$$\begin{array}{rclclcl}
 \$ & \underline{5,000.00} & & \times & \underline{3.36\%} & & \times & \underline{30.00} & & = & \underline{\$ 5,040.00} \\
 \text{Termination Pay Amount} & & & & \text{Contribution Rate} & & & \text{Creditable Service} & & & \text{Contribution Due}
 \end{array}$$

Amount of Employee Contributions Due To Be Remitted By Employer – Tax-Deferred \$ 4,617.50

- ☐ The tax-deferred portion is calculated by reducing the 'Termination Pay Amount' by a FICA/Medicare deduction of 7.65%, if applicable.

Amount of Employee Contributions Due To Be Remitted by Member – Personal Payment \$ 422.50

- ☐ The difference between the tax-deferred amount and the employee contribution due is considered an out of pocket expense, payable by personal check to the TRS.

(B) EMPLOYER CONTRIBUTION

$$\begin{array}{rclclcl}
 \$ & \underline{5,000.00} & & \times & \underline{3.51\%} & & \times & \underline{30.00} & & = & \underline{\$ 5,265.00} \\
 \text{Termination Pay Amount} & & & & \text{Contribution Rate} & & & \text{Creditable Service} & & & \text{Contribution Due}
 \end{array}$$

- ☐ The employer contribution due is paid from the individual county retirement fund.



Retirement Termination Pay Form Section III – Calculation Of Contributions Due Option 2

This section is to be completed ONLY if the TRS member elected Option 2.

EMPLOYEE CONTRIBUTION

7.150% X \$5,000.00 = \$357.50

Amount of Employee Contributions Due To Be Remitted By Employer – Tax-Deferred \$357.50

Amount of Employee Contributions Due To Be Remitted by Member – Personal Payment \$ 0.00

☐ The net amount of the termination pay will be remitted to the member, less the appropriate tax withholding.

EMPLOYER CONTRIBUTION

9.470% X \$5,000.00 = \$473.50

Retirement Termination Pay Form With Signed Election Form

If the employee has signed a “Termination Pay - Irrevocable Election Form” and elected termination pay Option 1 or Option 2, the gross amount of the termination pay will be subject to Social Security withholding. However, Federal and Montana state income taxes will not be withheld from the employee contributions being deducted from the termination pay. The employee **may not** change the termination pay option election if a valid “Termination Pay – Irrevocable Election” has been executed.

If the employee contributions due the TRS are greater than the net amount, after Social Security is deducted, the difference must be paid by the employee with a personal check; payable to the TRS. As the employer, you must provide the member a copy of the completed Retirement Termination Pay form, highlighting the out of pocket expense amount. The employee is to be advised they must remit the employee contributions due the TRS by personal check.

The tax-deferred portion must be reported on the monthly report by the employer, under the ‘Term Pay’ column, indicating the termination pay option (OPT) elected.


Contribution Detail													
Agency 999999 HELENA PUBLIC SCHOOLS Period 6 2008													
Member SSN	Name	Actual Wages	Current Contrib	Calculate Contrib	Service (FTE)	Monthly Hours	Additional Contrib	Employer Additional	Member Status	Action Code	Term Pay Contrib	Opt	Employer Term Pay
123-45-6789	Smith, Jane	15,261.75	1,091.22		1.00				Full Time		\$4,617.50	1	\$5,265.00
												1	<input type="checkbox"/>

The employer contributions due the TRS on termination pay are to be reported on the ‘Contribution Summary’ page in the ‘Employer Term Pay’ field.

Contribution Summary

Agency

Period



TRS Employees	<input type="text" value="1"/>	Add'l Emplr Contrib	<input type="text" value="0.00"/>	# of Report Periods	<input type="text" value="1"/>
Total FTE	<input type="text" value="1.0"/>	Employer Term Pay	<input type="text" value="5,265.00"/>	Final Year-End Rpt	<input type="text" value="Yes"/>
Total FTE Hours	<input type="text" value="140"/>	TIAA CREF Contrib	<input type="text" value="0.00"/>	TIAA CREF Earnings	<input type="text" value=".00"/>
Earnings	<input type="text" value="15,261.75"/>	Total Emplr Contrib	<input type="text" value="5,265.00"/>	Pay Period Date	<input type="text" value="06/30/2008"/>
Regular Contribution		Total Due This Rpt	<input type="text" value="12,113.77"/>	Date Edited	<input type="text" value="07/09/2008"/>
Additional Contrib	<input type="text" value="4,617.50"/>	Remitted This Report*	<input type="text" value="12,113.77"/>	Date Posted	<input type="text" value="07/09/2008"/>
Member Contrib	<input type="text" value="1,091.22"/>	Report Over+/Short-	<input type="text" value="0.00"/>	Edit Status	<input type="text"/>
Employer Contrib	<input type="text" value="1,140.05"/>	Over/Short Balance	<input type="text" value="0.00"/>	Post Status	<input type="text" value="Posted"/>
Starting Entry No.	<input type="text"/>	Starting With	<input type="text"/>	Copy to New Period	<input type="text"/> <input type="text"/> <input type="button" value="Copy"/>
		Detail Sequence	<input type="text" value="Name"/>		

Retirement Termination Pay Form Without Signed Election Form

If the employee has not signed a “Termination Pay - Irrevocable Election Form” and elected termination pay Option 1 or 2, the employee contributions due on termination pay will not be tax-deferred. Federal, Montana state, and Social Security taxes will be withheld from the gross amount of termination pay received.

The net amount of the termination pay is made payable directly to the employee. As the employer, you must provide the member a copy of the completed Retirement Termination Pay form, highlighting the out of pocket expense amount. The member is to be advised they must remit the employee contributions due the TRS by personal check.

In addition, the employee contributions due on termination pay may be limited under Internal Revenue Code (IRC) Section 415(c).

Thank you for taking the time for this Retirement Termination Pay Training. If you have any questions relative to the calculation of the contributions due the TRS or the remittance of tax-deferred contributions, please feel free to contact the TRS office.

